



OFFICE OF THE STATE COMPTROLLER – REPORT HIGHLIGHTS

The following are highlights of some recent audits and reports issued by the Office of the State Comptroller (OSC):

- **Department of Human Services – Audit of Oversight of New Jersey Child Care Assistance program**

This audit found the state overpaid state-funded child care providers and failed to remove ineligible participants from the state's child care assistance program. By comparing income information set forth on program applications to state tax returns, the audit found 15 percent of the program participants sampled in the audit actually are ineligible for state child care assistance based on their true income. Meanwhile, approximately 8,000 children are on the program's waiting list. The audit also found that the state overpaid child care providers for one out of every six children sampled in the audit, indicating that total program overpayments could amount to millions of dollars.

- **Borough of Edgewater - Investigative Report on Inequitable Tax Assessments**

This Investigations Division report found the tax assessor for the Borough of Edgewater inappropriately reduced the assessed value of more than a hundred condominiums owned by the same wealthy developer, operating without documentation to grant reductions that more than tripled the tax reductions provided to owners of identical units in the same complex. The assessed values of the developer-owned units later were raised back to market value after the developer sold the units. In total, the Edgewater tax assessor granted assessment reductions that handed the developer an estimated \$472,000 in disproportionate and inappropriate tax savings.

- **Horizon NJ Health - Compliance Audit of Special Investigations Unit**

This Medicaid Fraud Division audit found the state's largest Medicaid health maintenance organization had done a poor job of pursuing and reporting fraud and abuse recoveries which would lower insurance costs paid by the state. According to the audit, Horizon NJ Health (HNJH) recovered only \$188,207 in

improper Medicaid payments to its network providers and enrollees in 2009 and 2010. Those recoveries represented less than one-tenth of one percent of the \$1.3 billion HNJH receives annually from the state. The audit found HNJH actively investigated only nine health care providers during the two-year period reviewed and made a total of five recoveries of improper Medicaid payments. It also found that only 14.1 percent of those recoveries were actually reported to the state as required. As a result of the underreporting, the state overpaid \$161,666 in premiums.

- **Analysis of Weaknesses in the New Jersey Pay-to-Play Law’s “Fair and Open” Contracting System**

Relying on evidence gathered from its contract reviews, this Procurement Division report illustrated how a series of fatal flaws have essentially rendered New Jersey’s Pay-to-Play law meaningless in the effort to prevent local governments from steering contracts to politically favored vendors. The report examined an exception to the Pay-to-Play law that allows local governments to award contracts to campaign donors with virtually unlimited discretion as long as the local government uses what the law defines as a “fair and open” process. The report found that “fair and open” requirements present few, if any, real obstacles to government entities seeking to reward politically favored vendors with government contracts. Among the more startling weaknesses discussed in the report is that a public entity seeking a “fair and open” exemption from the Pay-to-Play law is the sole arbiter in deciding whether it qualifies for the exemption. The public entity’s decision is final, and the public and competing vendors are not afforded an opportunity to challenge that decision.

- **Department of Corrections - Audit of the Residential Community Release Program**

This audit exposed crucial weaknesses in the state’s oversight of inmate halfway houses. The audit found the state had failed to meet its own guidelines for on-site monitoring of halfway houses, conducting only a small fraction of the required site visits. It also found the state had overpaid ten private halfway house providers by \$587,186 over a six-year period. In addition, the audit found DOC failed to exercise its contractual right to collect pre-set damages from halfway house providers that violated contract terms. For example, DOC could have assessed \$30,000 in liquidated damages for six separate escapes that occurred when halfway house residents were waiting to be transported back to prison by DOC correctional officers. DOC made no effort to collect the damages to which it was entitled.

- **Borough of Edgewater - Report on Professional Service Contracts**

This Procurement Division report revealed that poor contract management practices in the Borough of Edgewater had led to a string of unnecessary expenses for taxpayers. The review found that on numerous occasions the

Borough paid for legal services that were improperly billed. The Borough also approved a series of modifications to its contract with the Borough Attorney that permitted the attorney to bill the Borough hourly for services that previously were included in his salary. The Borough's hourly expenses for legal services substantially increased following the modifications.

- **Analysis of Clothing Allowance Payments to White-Collar State Workers**

This Audit Report found the state of New Jersey spends \$3.2 million a year on clothing allowances for state employees who are not required to wear uniforms or specialized work clothing. The report also found the state's clothing allowance policies are far more generous than those of neighboring states. The \$700 annual clothing allowances are granted as a flat payment in payroll checks without requiring a receipt. OSC found that 48 percent of white collar employees receiving the clothing payment do not wear uniforms or specialized work clothing.

- **Department of the Treasury – Audit of the Disposition of Excess and Surplus Computer Equipment**

This audit reviewed computers at the state's surplus property warehouse and found data on 79 percent of those computers and confidential or personal information on nearly a third. Only the intervention of our auditors prevented the state from auctioning off computers with confidential information and unlawfully disclosing Social Security numbers, health records and child abuse documents. These computers were shrink-wrapped on pallets and ready to be sold at public auction. Also bound for redistribution, according to the audit, were computers that contained confidential memoranda from a state judge as well as his tax returns for three years. In response to the audit, the state has changed its computer disposition practices.

- **Analysis of the On-Line Transparency of New Jersey's Local Authorities and Commissions**

In order to shine a light on some of New Jersey's more obscure governments, OSC analyzed the websites of close to 600 local authorities and commissions. We found that more than a third of those government units do not operate a website at all, 92 percent fail to post information about their public meetings and 97 percent fail to post relevant financial reports. The report estimated that those local agencies spend a combined \$5 billion annually and have incurred billions of dollars in debt. Along with the report, OSC created a "transparency portal," available on our website, that offers one-stop access to the available home pages of the more than 1,900 government entities operating in the state.

- **Rutgers University – Audit of Contracting and Selected Financial Management Practices**

This audit of Rutgers University revealed key deficiencies in the university's contracting and financial practices. We found New Jersey's state university has restricted competition in awarding its public contracts and has instead selected preferred vendors by rejecting basic requirements imposed on all other public colleges and universities in the state. In almost all instances, the audit found, Rutgers does not publicly advertise its available contracts and typically invites only a few vendors to bid.

- **New Jersey Turnpike Authority – Audit of Selected Operating and Financial Practices**

At the Turnpike Authority our auditors found \$43 million in waste on unjustified employee bonuses, unnecessary perks and inappropriate sick leave payouts. Overall, the audit found the Turnpike Authority had overpaid its employees, overpaid its management, overpaid for its health plan and overpaid for legal services. Employees and management were granted approximately \$30 million in bonuses that were not based on performance, including bonuses given to employees for shoveling snow and for working on their birthdays. The cumulative effect on employee earnings was, in some instances, dramatic. The audit details how a property inspector who retired in 2008 with a base salary of \$73,469 actually received \$321,985 that year when all payouts and bonuses were included. The audit prompted the elimination of those bonuses when toll collectors renewed their contract in April 2011.

- **Office of Information Technology – Audit of Billing and Contracting for Telecommunications Services**

This audit of the state's phone system will save taxpayers \$3.2 million annually. We found the state had been paying for more than 19,000 phone lines – nearly one in every six state phone lines in the state – that had gone unused and were no longer needed. The audit also identified more than 1,300 unused wireless lines. New Jersey state departments have since disconnected or suspended the lines. The audit also found the state has been renewing some of its major telecommunications contracts for more than a decade without opening the contracts up to competition as required by law. In one instance, OSC found that a contract had been improperly extended 22 different times.

- **Medicaid Fraud Settlement with Adult Day Care Provider**

In this investigation, OSC's Medicaid Fraud Division found a Newark adult day care facility failed to demonstrate it actually conducted vital health services for which it had billed the state Medicaid program. Under a settlement agreement with our office, the owners of the facility agreed to pay the state \$1.6 million, sell

their business and accept a five-year ban from the Medicaid program. OSC investigators reviewed the medical charts and records of 50 Medicaid patients at the facility and found that, in each case, the adult day care facility had received reimbursements for services it did not render.

- **Programmatic Examination of Municipal Tax Abatements**

This Audit Division report on New Jersey's local tax abatement program concluded that the program is pulling critical funding away from school districts and leaving taxpayers to pick up the costs. The report also found that abatement practices go largely unmonitored by the state and that municipal governments have little incentive to comprehensively assess whether abatements are actually achieving their economic development goals. The report made 12 recommendations for improving the tax abatement program, which include increasing stakeholder participation in the abatement process, improving state oversight and requiring municipalities to undertake detailed cost-benefit analyses before awarding abatements.

- **City of Atlantic City - Performance Audit of Financial Management Practices**

This audit detailed fiscal management problems in the areas of payroll and personnel, grants management, information technology, mercantile licensing and the police department. The audit also found the city spends nearly half a million dollars a year on council aides it is not authorized to employ and who report having little to do on a daily basis. The audit also found the city is holding \$9 million in properties eligible for foreclosure and has not made progress in reducing the backlog, even though it paid a law firm to do just that. Examples of sick time abuse and contract mismanagement were also uncovered through the audit, exposing millions of dollars in waste. Intervention by our auditors also led the city to shelve a plan to pay more than \$530,000 in unnecessary pre-retirement sick leave buyouts.

- **City of Camden - Audit of Water and Wastewater Contract**

This audit revealed that the City of Camden has wasted millions of taxpayer dollars by failing to properly manage its contract with a private vendor for water and wastewater services. The audit found that an average of 45 percent of the city's water production goes unbilled or simply never reaches its destination, resulting in the city losing revenue exceeding \$1.5 million annually. The audit further found that the vendor's failure to perform certain obligations under its contract with the city has presented potential health and safety risks for city residents. The audit included 23 recommendations for improving the city's contract management going forward, which the city has committed to adopt.

- **Department of Human Services' Division of Developmental Disabilities - Audit of Third Party Contracting**

Our audit of contracting practices at the Division of Developmental Disabilities uncovered a wide range of problems that have led to higher costs and reduced services, including the payment of unnecessary and inappropriate expenses, paying for services never rendered, the renewal of contracts without a competitive process or adequate review, and the failure of case managers to update assessments of the progress of clients with developmental disabilities. A service provider identified in the report as having billed the state for cruises and other inappropriate expenses recently agreed to reimburse the state \$353,000 in response to our findings. A follow-up review conducted by OSC found that the division has recouped wasted dollars, tightened its travel expenditure policy and strengthened its monitoring of contracts since the initial audit.

- **Department of Children and Families - Audit of Vehicle Usage**

This audit of the Department of Children and Families (DCF) found that the agency had failed to properly manage the assignment and usage of its fleet of 2,900 vehicles, leaving taxpayers to cover the cost of a series of expenses that could have been avoided. The audit included 18 recommendations for improving DCF's fleet management. A follow-up review conducted by OSC found that the department has managed its fleet more efficiently since the initial audit. For example, it has begun to monitor state-funded gasoline usage more effectively and has improved its ability to recoup costs stemming from parking tickets and accidents involving state vehicles.

- **Selection and Use of Audit Firms by New Jersey Government Units**

This Audit Division report found significant flaws in the way local government entities in New Jersey hire and use outside audit firms, including failing to rotate auditors, failing to use a competitive process in selecting auditors and hiring auditors who have made what should be disqualifying political contributions. The report found that those flaws have led to significant negative repercussions for the quality of audits produced. Our report included a series of recommended reforms to improve the system of auditor selection in New Jersey.

- **Governor's Council on Alcoholism and Drug Abuse (GCADA) - Audit of Selected Operating Practices**

This audit marked the first time this state agency's operations had been audited since its creation in 1989. The audit found GCADA had distributed more than \$10 million in grants in each of the last three years without a proper review and without requesting sufficient documentation from grant recipients. As a result, inappropriate grant expenditures were made. The audit also found that the

agency did not take steps to determine whether its grant dollars are producing positive results.

- **Irvington Township - Audit of Financial Management Practices**

This audit of Irvington Township found a government whose financial management practices were in disarray. For example, the audit found the Township's general ledger out of balance by \$59.7 million and problems with 26 of 42 cash disbursements we reviewed. Additionally, the audit found unsubstantiated expenditures, consistent late payment of bills and numerous information technology security issues. The audit detailed 21 steps for improving Irvington's fiscal operations, which the Township is now implementing.

- **Report on the Use of Public Funds to Lobby State Government**

This Audit Division report examined the practice of government entities spending public dollars to lobby state government. We found that local public entities in New Jersey are paying millions of dollars to outside lobbying firms for that purpose. The report also found that under current state law, public entities are not held to the same disclosure and transparency standards as private companies with regard to the hiring of lobbying firms. In addition, as a result of OSC's report, the state's Division of Pensions and Benefits removed from the pension system an individual whom OSC found to be improperly receiving pension credits for lobbying work for a municipality.

- **Borough of Washington - Audit of Procurement Practices**

This audit of the Borough of Washington revealed that poor contract and fiscal management practices were responsible for a municipal garage project increasing nearly five-fold in cost while yielding minimal construction progress over a ten-year period. The audit also found that the Borough steered a contract for a new fire truck to a specific vendor by tailoring bid specifications and by not allowing sufficient time for competing bidders to seek the contract. Since the audit, the Borough has declared the vendor in default and is seeking to recoup costs from the bonding company.

- **Township of Parsippany-Troy Hills - Municipal Insurance Contract**

This Procurement Division report issued guidance concerning a \$3.7 million contract for municipal insurance entered into by the Township of Parsippany-Troy Hills for which the Township Council and Mayor failed to follow proper procurement procedures. Our investigation and review found that the Council had overstepped its legal authority under the Township's form of government in order to award an insurance contract to its preferred vendor rather than the low bidder that was recommended by the Mayor.

- **Department of Labor and Workforce Development - American Recovery and Reinvestment Act/Summer Youth Employment Program**

This audit found that contrary to federal guidance, state officials steered federal stimulus dollars for summer youth employment programs away from private-sector employers and toward public and non-profit jobs. The audit also found several missed opportunities and weaknesses in program oversight, ranging from flawed state guidance to miscalculated job totals. Regarding the selection of employers, the audit found the private-sector jobs would have offered a wider range of work experiences with the potential for continued employment after completion of the summer program.